Bahria University
Discovering Knowledge

Class: BBA-3(A)

Course Code: ACC 102

Course Title: Financial Accounting

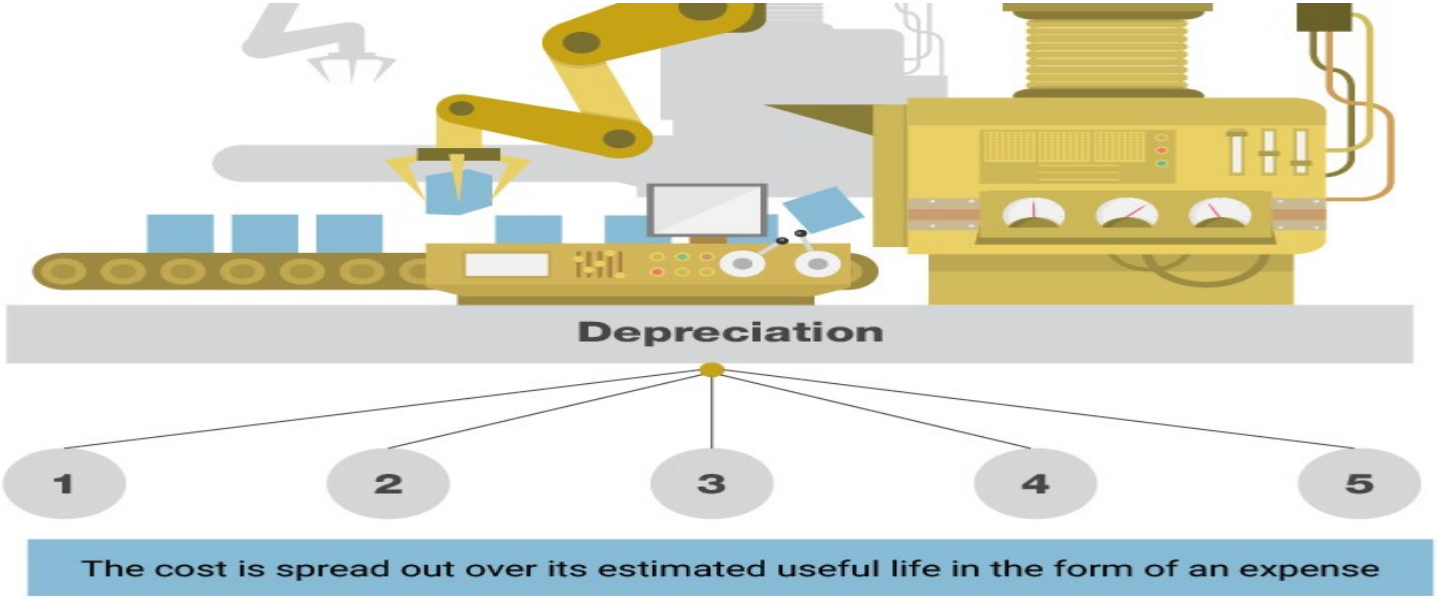
Class Day: Thursday
Timing: 08:30am to 11:30am

Lecture / Week No. 2 (05/02/2026)

Instructor Name: Asim Iqbal

Business Studies Department
BAHRIA UNIVERSITY, KARACHI CAMPUS

What is Depreciation???

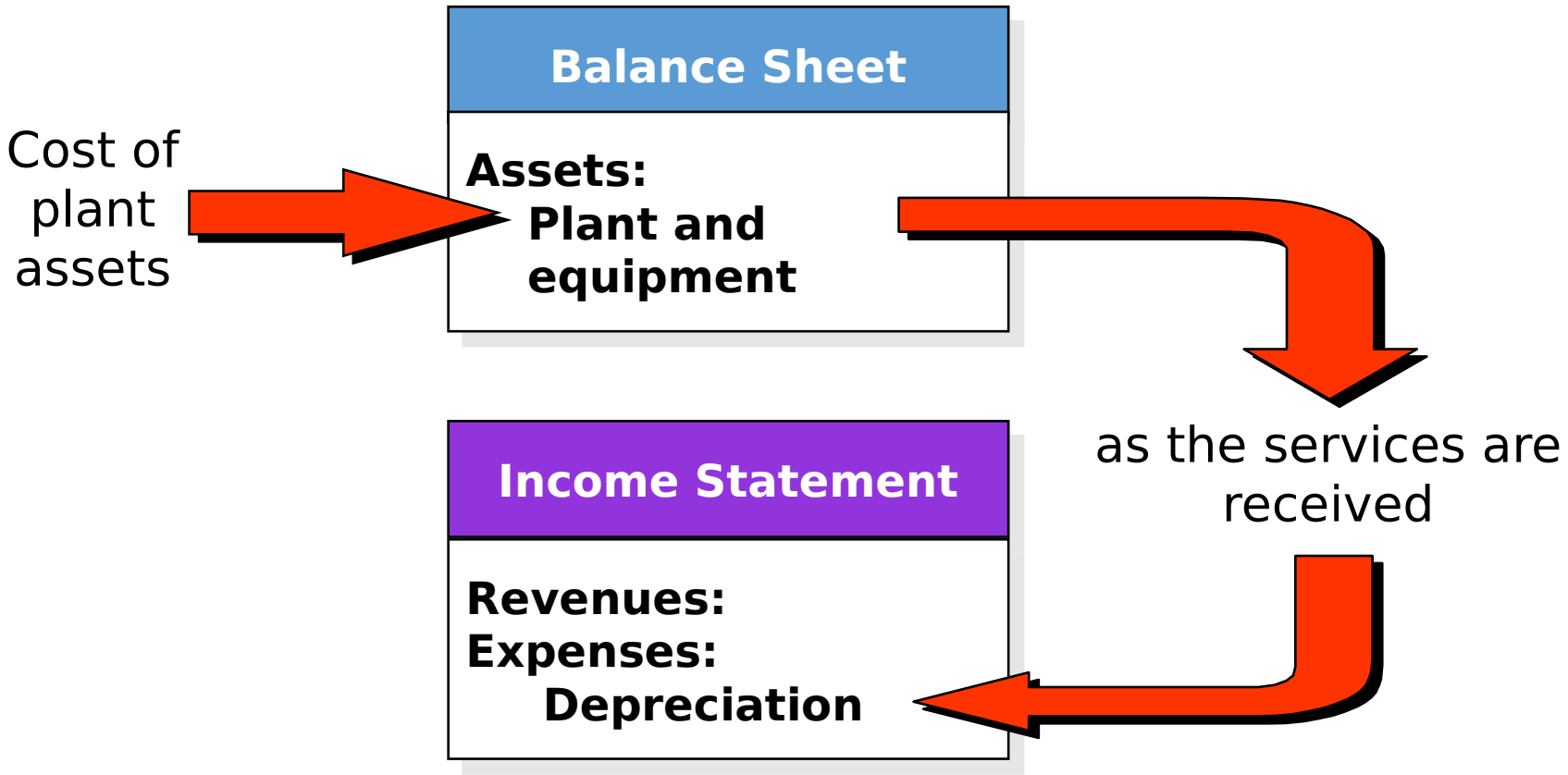


Allocation of the cost of a tangible plant asset to expense in the periods in which services are received from the asset.

Matching Principle

Depreciation

The allocation of the cost of a plant asset to expense in the periods in which services are received from the asset.



Depreciation

Book Value

Cost – Accumulated Depreciation

Depreciation

- Contra-asset
- Represents the portion of an asset's cost that has already been allocated to expense.

Causes of Depreciation

- Physical deterioration
- Obsolescence

Methods of Computing Depreciation

- Straight-Line Depreciation.
  - Depreciation for fractional periods.
- Accelerated Depreciation
  - The Declining-Balance Method
    - Double-Declining-Balance
    - 150%-Declining –Balance
    - MACRS
- The Units-of-output Method.

Straight-Line Depreciation

The Straight Line method allocates equal portion of depreciation expense to each period of the asset's useful life. It is used most commonly for financial reporting purposes.

$$\text{Depreciation Expense per Year} = \frac{\text{Cost} - \text{Residual Value}}{\text{Years of Useful Life}}$$

Depreciation for Fractional Periods

When an asset is acquired during the year, depreciation in the year of acquisition must be prorated.

Half-Year Convention

In the year of acquisition, record six months of depreciation.

1/2

The Unit-of-Output Method

Under the units-of-output method, depreciation is based on some measures of output rather than on the passage of time. When depreciation is based on units of output, more depreciation is recognized in the periods in which the assets are most heavily used.

$$\frac{\text{Cost} - \text{Residual Value}}{\text{Estimated Units of Output}} = \text{Cost per Unit of Output}$$

Depreciation Expense = Actual units produced * cost per unit

The Unit-of-Output Method

Consider, S&G's delivery truck, which cost $17,000 and has an estimated residual value of $2,000.

Assume S&G's plans to retire this truck after it has been driven 100,000 miles.

Compute the amount of depreciation if the truck is actually driven 30,000 miles.

Cost – Residual Value of Output / Estimated Units of Output = Cost per Unit

$17,000 - $ 2000 / 100,000 miles = $ 0.15

Depreciation per Mile.

Depreciation Expense = Actual units * cost per unit

4,500 = 30,000 miles *

Bahria University
Discovering Knowledge

L01 L02 **EXERCISE 9.2**
Distinguishing Capital Expenditures from Revenue Expenditures

Identify the following expenditures as capital expenditures or revenue expenditures:

a. Immediately after acquiring a new delivery truck, paid $195 to have the name of the store and other advertising material painted on the vehicle.

b. Painted delivery truck at a cost of $450 after two years of use.

c. Purchased new battery at a cost of $40 for two-year-old delivery truck.

d. Installed an escalator at a cost of $17,500 in a three-story building that had been used for some years without elevators or escalators.

e. Purchased a pencil sharpener at a cost of $15.00.

f. Original life of the delivery truck had been estimated at four years, and straight-line depreciation of 25 percent yearly had been recognized. After three years' use, however, it was decided to recondition the truck thoroughly, including adding a new engine.

L03 **EXERCISE 9.3**
Depreciation for Fractional Years

On August 3, Srini Construction purchased special-purpose equipment at a cost of $1,000,000. The useful life of the equipment was estimated to be eight years, with a residual value of $50,000.

a. Compute the depreciation expense to be recognized each calendar year for financial reporting purposes under the straight-line depreciation method (half-year convention).

b. Compute the depreciation expense to be recognized each calendar year for financial reporting purposes under the 200 percent declining-balance method (half-year convention) with a switch to straight-line when it will maximize depreciation expense.

c. Which of these two depreciation methods (straight-line or double-declining-balance) results in the highest net income for financial reporting purposes during the first two years of the equipment's use? Explain.

L03 **EXERCISE 9.4**
Depreciation Methods

On January 2, 2011, Jansing Corporation acquired a new machine with an estimated useful life of five years. The cost of the equipment was $40,000 with a residual value of $5,000.

a. Prepare a complete depreciation table under the three depreciation methods listed below. Use a format similar to the illustrations in Exhibits 9–4, 9–5, and 9–6. In each case, assume that a full year of depreciation was taken in 2011.

1. Straight-line.

2. 200 percent declining-balance.

3. 150 percent declining-balance with a switch to straight-line when it will maximize depreciation expense.

b. Comment on significant differences or similarities that you observe among the patterns of depreciation expense recognized under each of these methods.

LO4 **EXERCISE 9.13**

Units-of-Output Method

During the current year, Airport Auto Rentals purchased 60 new automobiles at a cost of $14,000 per car. The cars will be sold to a wholesaler at an estimated $5,000 each as soon as they have been driven 50,000 miles. Airport Auto Rentals computes depreciation expense on its automobiles by the units-of-output method, based on mileage.

a. Compute the amount of depreciation to be recognized for each mile that a rental automobile is driven.

b. Assuming that the 60 rental cars are driven a total of 1,770,000 miles during the current year, compute the total amount of depreciation expense that Airport Auto Rentals should recognize on this fleet of cars for the year.

c. In this particular situation, do you believe the units-of-output depreciation method achieves a better matching of expenses with revenue than would the straight-line method? Explain.

Any Questions?

Thanks